

**Testimony of William S. Berkley  
President and CEO  
Tension Envelope Corporation  
Before the United States Postal Regulatory Commission  
Field Hearings  
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My name is Bill Berkley and I am the president and CEO of Tension Envelope Corporation. I am a fourth generation envelope manufacturer and our company has been in Kansas City for 121 years. We began as a printing specialty company before the turn of the century but we have witnessed many changes since our founding.

Our association, The Envelope Manufacturers Association, represents about 80 percent of the domestic envelope manufacturing industry in this nation and about 60 percent of the envelopes produced around the globe. Our Association has members in 37 nations and we produce more than just envelopes that go through the mail. If you send a document via courier, stay in a hotel and have your room key presented to you in a key card holder, have photos developed and then take them home in an envelope, or send an inter office envelope, chances are that one of our members has made those products.

The Postal Accountability and Enforcement Act of 2006 was quite an accomplishment for all of us. We, like many other associations, were involved in postal reform discussions for over 12 years. We participated in the Presidential Commission hearings, we wrote papers and we saw this legislation as a step in the right direction in creating a more modern Postal Service.

Chairman Blair and Members of the Commission, we thank you for traveling "outside the beltway" to receive these views from the heartland of America. We appreciate the work you are doing and the important new role that this legislation has mandated for the commission to address.

For a long period of time, postal ratemaking has meant that you had to hire an attorney that specializes in postal rate matters and even an economist that argues over the most esoteric formulas and allocations in the determination of rates. It will take us all more

time to get used to a new system of rate setting and a new role for the Regulatory Commission. But what is more important to us, is not the formulas, or allocations or rate making models but the notion that these rates are developed from supporting cost evidence that is fully transparent to the regulator and to those that want to examine the underlying basis of the rates that the USPS has proposed.

In our view, the new law puts the Commission in a much broader role. You are a regulator with very broad powers to examine any aspect of the Postal Service, from universal service to network design, to benefit formulas, to the manner in which systems that operate the Postal Service are procured and their underlying cost and benefits

You have asked for our thoughts into the transition from the old system of making rates into the new system established under the new law. We have several comments that are transitional in nature but would leave the economic issues up to those postal economists I talked about earlier.

1. **Timing is everything** – The timing of the next rate increase is very critical to us. Sometimes it is not the amount of the rate increase but the velocity of those increases that impacts us dramatically. For example, the current rate increase is just being absorbed into the mailing industry right now and it is already showing some dramatic changes in the mix of our business. We produce about 44 billion flats per year in our industry. Many of these flats go into courier envelopes and other products that are not impacted by the mailstream, but for those that do, we have seen our flats business in the first month since the rate increase cut dramatically. Some are seeing volume cut in half. We have talked with mailers about the reasons they are not using flats right now and it is not just rates, it is regulations. The combination of these rates and regulations creates a much different product for our customers. As a result, they are either trying to move into lettermail or they are looking for electronic alternatives. Some are going to see if there is a response difference between the flats size and a redesigned letter size and may come back to flats but our concern is that many will not. University customers with limited budgets are telling us they are developing strategies that move them away from flats and into electronic distribution of

materials. Keep in mind that it is not only the postal revenue that is lost but it is the entire print value chain that is lost when a flat is not mailed.

Let me offer you a specific assessment. There is a significant installed base of equipment in the envelope industry and in the graphic arts industry in general to handle flats. Much of that equipment will now be underutilized and employees will lose their jobs. Industry profitability will be impacted. The USPS is making a substantial investment in flats sortation equipment to be installed over the next several years for a flats market that is seriously shrinking as a result of the significant cost increase of this rate case. It is a damaging decision that has broad implications beyond just the operations focus of the USPS.

2. **What is our focus?** I believe more emphasis needs to be placed on the fact that what the USPS is proposing and has accomplished so far is accelerating the move to other forms of communication. Not only will this impact the USPS today but it will continue to do so at an accelerated rate – you cannot put that genie back in the bottle. There is a cost and regulatory model that pushes people outside their comfort zone and we are pushing our customers to adopt quickly other alternative communications strategies. Keep in mind that in today's Six Sigma world, corporations can rapidly change both processes and strategy; we changed much more slowly a decade ago. The decisions of this Postal Regulatory Commission will accelerate or slow that curve. We must build business models that not only have an operations component but also a focus on and sensitivity to what the market will bear. Whatever part of the supply chain to the mailing community I am speaking with (mailers, suppliers and others) the nearly unanimous consensus is that the only priority the USPS cares about is its own operational efficiency. That focus will result in serious long-term damage to the USPS. We must all understand that what drives us is our common customers and their ability to mail.
3. **The next rate case** – We are very concerned that an additional rate case this year or early next year will create negative and permanent consequences for the volume of mail. If rates are raised with the same velocity and magnitude as they have been in the past, mail volume will only decline further. Legislation created an environment where there would be predictable rate increases that did not raise rates faster than CPI. What is our objective in raising rates before the new law

goes into effect in 2009? Are we just building a base of costs that will enable the USPS to build future rates from a higher base? Do you think that the market can absorb this increase under the old rules? We must understand what is happening in the marketplace. As rates increase customers are making short and long-term decisions not to mail.

4. **New areas for action** – Under your new mandate there are several areas we urge you to consider as they particularly need the leadership of this commission. The first is getting the USPS to promote, much more aggressively, the value of mail. Please understand that mail is under attack. Meaningful dollars must be spent to promote the many benefits of mail – such as its secure nature, ability to make a personal connection, as well as its marketing and sales power, and more. As a \$50 billion plus enterprise the Postal Service must spend more to promote its core product – letter mail – so the public understands the true value of mail. That will in turn help drive volume.

Second – mail is under attack by those who consider it unfriendly to the environment. We have from small NGO's (non-governmental organizations) to celebrities calling for reduced mailing because of the environment. Truth is we are all environmentalists. We all care about the planet. The collective industry, however, and the USPS in particular, have done a poor job of telling its own environmental story and its very responsible sustainability practices. The USPS needs to be at the forefront telling the story so the public understands the considerable amount that is really being done. We must get the true facts out. A simple example, there are more trees in the USA today than there were 100 years ago, and millions more are planted every year. Somehow those facts are not discussed. We are fortunate that trees used in our products are a renewable crop. So much is being done on the sustainability front, but so little is being heard by the public. All of us, including the USPS, must get active and vocal immediately.

Your call to action and oversight in these two areas will make an important difference.

5. **Keeping it simple** – I mentioned in my earlier point about the complexities of dealing with the rate cases in the old rules. Our association used to intervene in

rate cases. We argued a number of issues in the early 1990s and then determined that it was getting too complicated and too expensive for us to intervene separately. Thereafter we joined the associations and organizations that we support in their efforts before the Commission. We need to keep in mind that we have to keep proceedings simple and rules of practice simple to avoid a system that only postal attorneys and economists can use. We ask when you establish these new rules that you remember to keep it as simple as you can. Proceedings before every regulator are always difficult, but let us also insure that we make it easy to navigate and understand the proceedings in this evolving system.

6. **Assuring a bang for the buck** – Independence, Missouri is only a short distance from here and there was a man that lived there that believed that the buck stopped on his desk. To a certain extent the postal buck now stops on your desks. One important role that you may want to think about is your role to evaluate what has been proposed and its impact on all postal consumers. But who is the consumer today? There are several: a single piece rate payer who goes to a postal counter and purchases a book of stamps; a business customer who purchases postage in bulk, uses automation discounts and has very different needs than a single piece ratepayer; and finally, those who provide products and services, like envelope companies, whose business success resides around the success of the entire enterprise. All three of the consumer groups are benefited when you take a holistic view of the postal enterprise – when you not only look at access of individual citizens to postal offices, but access of businesses to the loading docks and finally the impact that the postal system has on the economy.

I can speak for Kansas City and tell you that the mail is important to our metropolitan area. Our businesses grew because of the mail and they will continue to grow in the future because of the financial vitality of the Postal Service and the financial vitality of the customers of the Postal Service. When the USPS moves to a new mail processing technology, proposes rates and regulations, or builds and relocates services, I ask that you keep all of us in mind as you examine the “bang for the buck” of these decisions. You are more than just a representative of one class of consumers, you represent all of us and in

that role, as well as in consideration of the new role this legislation has developed for you, we hope you are an analyst, as well as a regulator.

I want to close my comments this morning with an open invitation to any member of the Regulatory Commission, your staff and related parties to visit any envelope company in our industry in any part of the Globe. Our doors are always open to you because we believe that together, we can keep our postal system strong and financially viable for many years to come.

Thank you and again, thank you for the work you do.